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ABSTRACT

This report outlines the progress and the plans of the Advisory Committee on Student Financial Assistance, a group created by the 1986 amendments to the Higher Education Act to strengthen the federal student aid programs to ensure equal opportunity through access to postsecondary education. The report begins with descriptions of the Title IV programs of the Higher Education Act which authorize postsecondary student financial assistance, the structure and agenda of the Advisory Committee, and the Advisory Committee's reauthorization activities. Four issues dominating the Advisory Committee's agenda during its first 2 years are discussed: the new formula for need analysis, Congressional Methodology (CM); the structure and costs of multiple data entry processing; institutional lending in the Stafford student loan program; and the rising level of student loan defaults. The report documents issues that should be considered by Congress during the next reauthorization of the Higher Education Act. These issues include need analysis and the delivery system; information resources, services, and programs; and studies, surveys, and analyses. A list of members and staff and a copy of the authorizing legislation for the Advisory Committee on Student Financial Assistance conclude the report. (JDD)

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Ensuring Access: Challenges in Student Aid in the 1990s

A Report of the
Advisory Committee on
Student Financial Assistance

July 1990

U.S. DEPARTMENT OF EDUCATION

Ensuring Access: Challenges in Student Aid in the 1990s

Advisory Committee on
Student Financial Assistance

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Francis Keppel

This report is dedicated to the life and memory of Francis Keppel. Mr. Keppel served as the United States Commissioner of Education, Dean of the Harvard Graduate School of Education, Vice Chairman of the New York City Board of Higher Education, and Director of the Aspen Institute's education policy program. Throughout his life in public service Mr. Keppel sought to achieve equality of educational opportunity for the neediest students and to improve the quality of that education. His role as visionary leader ensured the passage of the Elementary and Secondary Education Act of 1964 and the Higher Education Act of 1965 which represent the foundation of this nation's efforts to achieve equality of opportunity through education. He played a major role in school desegregation under the provisions of the Brown decisions and the Civil Rights Act of 1964. His leadership was particularly felt in federal student assistance, as he served as chairman of the National Task Force on Student Aid Problems and the National Commission on Student Aid, a predecessor to this Advisory Committee. The Advisory Committee's work toward ensuring access through federal student assistance is dedicated to his memory.

Acknowledgements

The Committee is indebted to many individuals who have contributed to the development of this report. In particular, the Committee wishes to acknowledge the work of Sharon Block and Kimber Craine, who assisted in drafting the report, and the staff at Crosspaths Management Systems, Inc., especially Frank Nassetta, Hak-Chul Chung, Mary Beth Maczka, Carl Bergman, and Valeri Byrd for production support.

EXECUTIVE SUMMARY

The Higher Education Act (HEA) underpins our nation's commitment to educational opportunity. Since the passage of the HEA in 1965, the federal student financial assistance programs created by Title IV of the HEA have grown dramatically, from $200 million in 1965-66 to more than $18 billion in 1988-89. This growth in student assistance has supported unprecedented enrollments at postsecondary education institutions. Despite this, concern persists about access and choice for students, especially low-income and minority students.

Congress responded to concerns about access and the increasing complexity of the programs and delivery through the Higher Education Amendments of 1986. In this reauthorization of the HEA, Congress created the Advisory Committee on Student Financial Assistance to ensure that the programs continue to meet their critical goals. The Advisory Committee's most important charge is "to make recommendations that will result in the maintenance of access for low- and middle-income students."

The Advisory Committee structure reflects the diversity of the contemporary financial aid community. College presidents, financial aid administrators, educational association executives, bank officers, guaranty agency executives, state higher education officials, and students have served on the Committee. Members are appointed by the leaders of the United States Senate, the House of Representatives, and the Secretary of Education on the basis of technical expertise and knowledge of student aid and educational policy. The 11 members serve in staggered terms of three years. These members, who are quoted throughout this report, are listed on page 23.

Since its first meeting in December 1987 the Committee has been very productive. It has completed two mandated analyses, made recommendations to improve the formula for determining students' financial need (Congressional Methodology, known as CM), and responded to emerging policy issues. In April 1988, the Committee forwarded to Congress a set of recommendations concerning the CM, designed to simplify the independent student definition, recognize the use of professional judgment for certain types of students, eliminate inconsistencies in the treatment of benefits and student earnings, and resolve the inconsistencies between the tax code and the HEA.

The Committee also examined the structure and costs of multiple data entry (MDE) contracts for processing federal student aid application forms. The Committee recognized that this mandated assessment overlapped with the Committee's broader charge: "to monitor, apprise [sic], and evaluate the effectiveness of student aid delivery and

recommend improvements." After substantial staff analysis and input from the community, including a well-attended hearing, the Committee made recommendations to the Department of Education (ED) and Congress. The Committee was careful to deliver its recommendations in a timely manner, which permitted the Department to avoid delay in the delivery of aid in the 1990-91 academic year.

These recommendations were designed to simplify the application process for students and parents, integrate the delivery of federal aid, and decentralize processing, and student interaction to the MDE level. The use of a common application form by all MDEs also would ensure the availability of simplified need analysis by all qualified families.

The Committee conducted a Congressionally mandated study of direct lending by postsecondary institutions in the Guaranteed Student Loan programs. The charge was to determine whether statutory restrictions put in place over a decade ago are still relevant. The lack of existing data bases and models hindered quantitative assessments. This limitation compelled the Committee to fashion a largely qualitative study design, using case studies of state loan systems, analytic papers, a call for broad analytic input from the community, and an analytically focused symposium. The Committee concluded that eliminations of the criteria could lead to instability in a currently sensitive program, as the quality of commercial lenders' student loan portfolios could decline and the distribution of loans in secondary markets likely would shift. The study identified several issues for further study, including: impending problems with access to loans for students attending community colleges and proprietary institutions; arrangements among institutions, banks, and secondary markets that may be inconsistent with Congressional intent; and adequacy of lender-of-last-resort arrangements.

The Advisory Committee also assisted Congress and ED in shaping default reduction strategies. As public awareness of Stafford loan defaults grew, pressure on Congress and ED increased to fashion solutions that reduced defaults without affecting access to loans--on which students of all income levels have become dependent. The Committee's proposed approach would assign to each party in the delivery process responsibility commensurate with that party's area of control. In addition, the Committee urged a targeted approach, one which would avoid imposing blanket default requirements on all institutions, banks, and guaranty agencies--even those performing well.

In April 1989, Congress asked the Committee to identify and explore issues that Congress should consider during the next reauthorization of the HEA, in 1991. The Committee's approach to reauthorization recognizes that the Title IV programs have been very successful in supporting access for traditional college-bound students, but that more must be done to achieve and maintain access for disadvantaged and low-income students.

The Committee will concentrate its efforts in 1990 on three issue areas derived from its Congressional mandate: need analysis and delivery system; information resources, services, and programs; and studies, surveys, and analyses. The Committee is exploring several policy alternatives in the area of *need analysis and delivery*, including:

- Simplifying need analysis by exempting from need analysis very low-income populations, modestly increasing the income cap for simplified need analysis, and integrating the Pell and Congressional Methodologies for at least some categories of students.
- Exempting from need analysis families that receive benefits from federal human resource programs (such as AFDC) and streamlining annual reapplication processes.
- Monitoring state and institutional responses to the current simplified need analysis and, where possible, addressing state and institutional concerns in order to encourage use of existing and potential simplification alternatives.

The Committee held a symposium on these topics in December 1989 and is actively pursuing a set of analytic activities focused on these policy alternatives.

The second reauthorization symposium will be held in May 1990 and will focus on *information resources, services, and programs*. In this area, the Committee is interested in assessing the structure, distribution, *and* timing of information related to financial aid programs. The Committee is particularly interested in the amount and adequacy of information about financial aid options provided early in high school to disadvantaged students. The third reauthorization symposium will focus on *studies, surveys, and analyses* that must be conducted to address the most serious problems affecting access and choice for low- and middle-income students. The third reauthorization symposium is planned for summer 1990.

The Advisory Committee on Student Financial Assistance was created and its members are dedicated to strengthening the federal student aid programs to ensure equal opportunity through access to postsecondary education. Despite the impressive growth of the programs and postsecondary enrollment, more must be done to assure the most disadvantaged that access to postsecondary education is meaningful and real. This report outlines the Committee's progress to date on many of these issues and its plans for 1990 and 1991.

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MAKING THE COMMITMENT

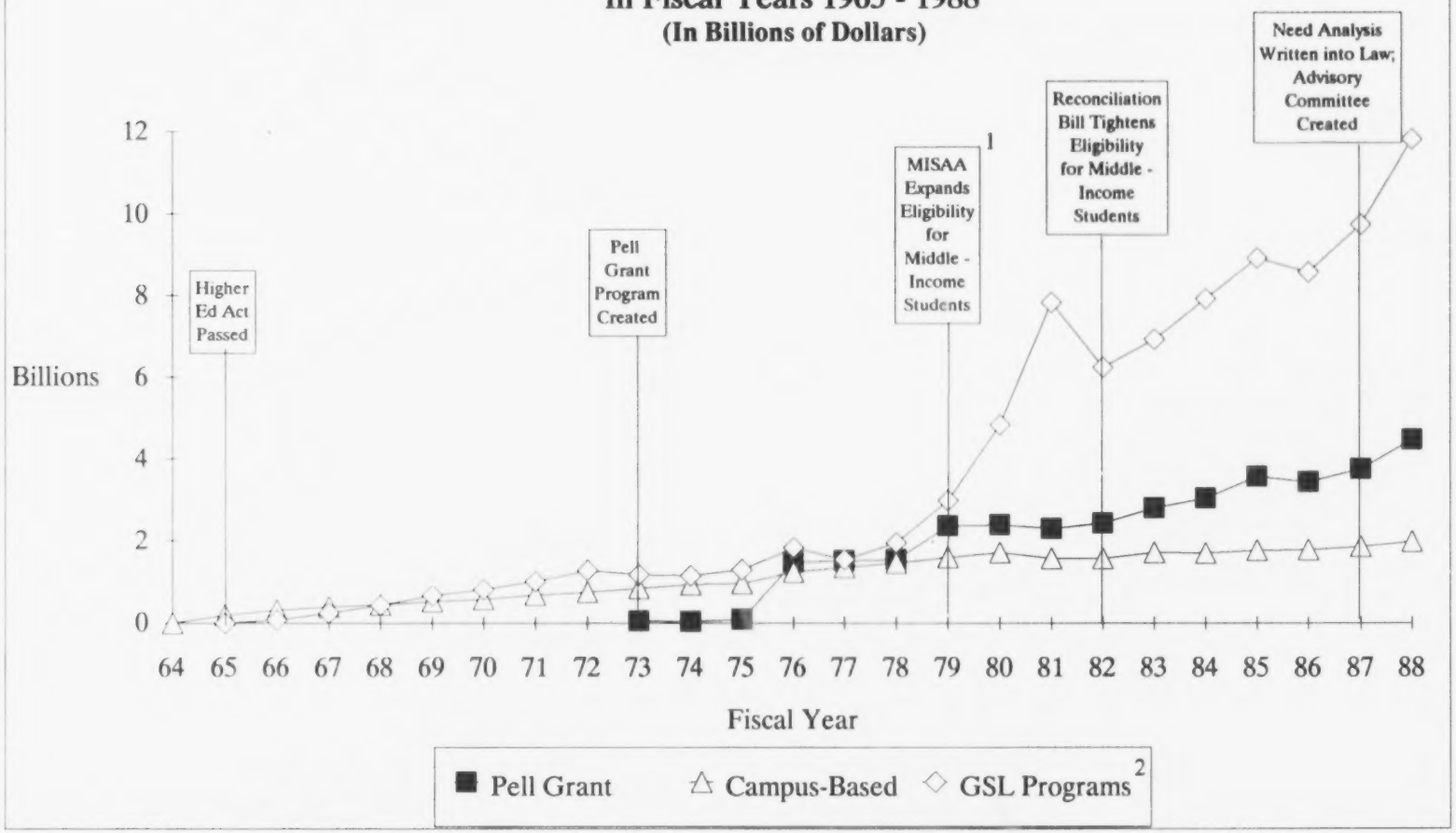
The Higher Education Act (HEA) of 1965 exemplifies our country's commitment to investing in the future of its citizens. This landmark legislation has helped millions of students realize their aspirations to a better life through education. It is an explicit federal commitment to achieving equal postsecondary education opportunities by providing aid for needy students. The five programs authorized by Title IV of HEA--Pell Grant, Supplemental Education Opportunity Grant, Perkins Loan, College Work-Study, and Guaranteed Student Loans (including Stafford, Parent, and Supplemental Loans)--are designed to identify eligible disadvantaged students and provide them with grants, loans, and work opportunities to support their postsecondary education.

"Student aid represents our fundamental commitment to equal opportunity, and ultimately, our faith in education as a means of achieving it."
James R. Craig, Chairman

These programs have been enormously successful in supporting low- and middle-income students attending postsecondary education institutions. In 1965-66, $200 million was distributed under the newly passed Higher Education Act. By 1988-89, total available federal student assistance funds grew to $18.4 billion. Exhibit 1 represents this growth relative to major milestones in student aid. This level of federal support, along with increases in state and institutional funding for student assistance, has led to unprecedented enrollment in postsecondary education institutions. More than 13 million students were enrolled in postsecondary education programs in the fall of 1989.

More recent trends, though, raise new concerns related to access. Although the minority population in the United States is growing, the percentage who attend higher education institutions is decreasing. Disadvantaged students are often uncertain of the resources available to them, uninformed about postsecondary costs, and confused by the profusion of forms, data requirements, and analyses necessary to obtain these resources. In its 1986 amendments to HEA, Congress responded to these challenges, in part, by creating the Advisory Committee on Student Financial Assistance to ensure that the Title IV programs continue to meet their important goals. Congress charged the Committee "to make recommendations that will result in the maintenance of access to postsecondary education for low- and middle-income students.

Exhibit 1
Title IV Expenditures by Program
In Fiscal Years 1965 - 1988
(In Billions of Dollars)



Source: U.S. Department of Education

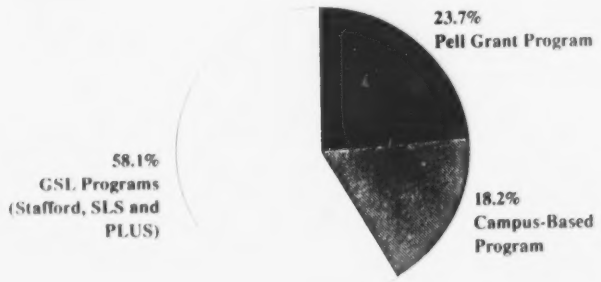
1. Middle Income Student Assistance Act

2. Includes SLS and PLUS

The Title IV Programs

In order to perform its mandated function, the Committee must confront a federal student assistance system consisting of five different yet interrelated federal programs. These programs have evolved over the last three decades as Congress has responded to new demands. Since 1972 more than 32 million students have received nearly $35 billion in financial aid under Title IV's basic student aid program, the Pell Grant program. The program operates as an entitlement based on the student's need, as established by the Pell need analysis. This grant is processed and administered directly by the federal government, and the student may use it at any eligible institution. More than half of Pell Grant recipients come from families with annual incomes of less than $15,000.

Distribution of
Cumulative Title IV Expenditures
by Program[1]



Source: U. S. Department of Education

[1] FY 1965 - 1988

The Supplemental Educational Opportunity Grant, College Work-Study, and Perkins Loan programs--known collectively as the Federal Campus-Based programs--are administered directly by postsecondary education institutions. Unlike the Pell or Stafford programs, federal funds are allocated to participating institutions annually, and institutions must match the federal commitment with their own funds. The participating colleges and schools award funds to students based on their need for assistance as determined by a need analysis formula (separate from the Pell formula), called the Congressional Methodology (CM). Institutions have a good deal of discretion in awarding these funds. Since 1970, nearly $27 billion in

Federal Campus-Based funds have been awarded to graduate and undergraduate students.

An additional $40 billion in aid has been generated through the Guaranteed Student Loan program. This program offers eligible students federally guaranteed, low-interest loans based on financial need. Students borrow funds provided by banks or other types of lenders; each loan also must be approved by a guaranty agency that is responsible for monitoring lenders' compliance with the rules of the program. The federal government pays certain administrative costs and interest subsidies for these loans. In the last decade this loan program has surpassed the Pell and the Federal Campus-Based programs and is now the largest source of federal financial assistance.

Over the past 25 years, the Title IV programs have evolved into a complex student aid delivery network consisting of more than 8,000 schools, 13,000 lenders, and 54 loan guaranty agencies. Each student's award involves numerous parties, confusing steps, demanding data requirements, and elaborate systems for analyzing need. Confronting student aid delivery can be a daunting process, especially for first-time filers and first-generation college students. The Advisory Committee must use its expertise to advise Congress and the Secretary of Education on appropriate adaptations and changes in the Title IV programs--changes that will enhance their ability to serve needy students and continue to ensure broad access to postsecondary education in a period of increasing concern about the participation of disadvantaged students.

Committee Structure and Agenda

Congress structured the Committee to reflect the diversity of the financial aid community. College presidents, financial aid administrators, educational association executives, bank officers, guaranty agency executives, state higher education officials, and students have all served on the Committee. Three of the Committee's 11 members are appointed by the president of the Senate, three by the Speaker of the House, and five by the Secretary of Education. The members serve in staggered terms of three years and are appointed on the basis of technical expertise, professional standing, and demonstrated knowledge of the diverse financial assistance system and education policy.

To meet the overriding objective of its legislative charge--helping ensure and broaden educational access for low- and middle-income families through the Title IV programs--the Committee has sought to:

- Increase the effectiveness of the need analysis and delivery system;
- Improve information services and other outreach programs, especially for nontraditional and minority students;
- Ensure the health and stability of student work, grant, and loan programs; and
- Encourage the development of a comprehensive and reliable data base for financial aid policy.

"This Advisory Committee plays an important role in our continuing efforts to strengthen our programs and ensure post-secondary access."
Lauro F. Cavazos, Secretary of Education

The Committee has been very productive. Since it held its first meeting in December 1987, it has completed two Congressionally mandated analyses: the first concerned the structure of the Multiple Data Entry system; the second, the role of institutional lending in the Stafford Loan program. In compliance with statutory directives, the Committee has made recommendations on the new Congressional Methodology and has commented on several issues pertinent to the assessment of student need (need analysis). Beyond specific statutory requirements, it has been sensitive to new or emerging priorities, responding in a flexible and timely manner. When Congress, the Department of Education, and the community took up the issue of student loan defaults, the Committee offered a framework for developing and evaluating default reduction strategies. As new legislative initiatives have evolved, Committee members have offered testimony on other financial aid issues before Congress. Many of the Committee's recommendations to Congress have been implemented, particularly those related to the structure of the student aid delivery and a no-fee student aid form.

The Committee has actively and consistently sought input from the financial aid and higher education communities. Since its first meeting, the Committee has used a variety of means to ensure broad and regular communication. The Committee holds widely publicized open meetings, often scheduled in conjunction with national professional meetings to permit participation by financial aid and other professionals. The Committee has held three well-attended hearings. In conjunction with studies and other major initiatives, the Committee has sponsored symposia on topics such as institutional lending and the simplification of need analysis and delivery of student

assistance. Hundreds of congressional staff, association and institutional representatives, and financial aid practitioners attended these symposia. Committee members and staff have conducted meetings with other organizations and government leaders to obtain input on policy issues and to communicate Committee recommendations and positions.

The Committee's Reauthorization Activities

In April 1989 Congress asked the Advisory Committee to assist in preparing for the reauthorization of the Higher Education Act. The Advisory Committee has identified three issue areas as a framework for its reauthorization activities: ***need analysis and the delivery system***; ***information programs, services, and resources***; and ***studies, surveys, and analyses***. These issue areas will be examined and discussed over the coming year, in part through symposia, and the Advisory Committee will report on its findings in late August of 1990.

Need Analysis and the Delivery System The Committee has already begun to define problems and identify alternatives in the first issue area. It has identified three foci for its analytic activities: simplification of need analysis, streamlining forms and processes, and examining state and institutional data needs.

Information resources, services, and programs In this area, the Committee is interested primarily in assessing the structure, distribution, *and* timing of information related to the financial aid programs--especially current efforts to make disadvantaged students aware early in high school of the economic returns to education, costs, and their financial aid options. The most promising federal, state, and institutional early interventions will be reviewed as part of this assessment.

Studies, surveys, and analyses The Committee's primary responsibility in this area is to recommend--*not* conduct--analytical efforts aimed at improving student aid programs, policies, and practices. Of special interest is the adequacy of existing analyses and data related to access, retention, and education outcomes of low-income disadvantaged students. The fundamental question in this area is, "what studies or analyses need to be done to solve the most serious problems affecting access and choice for low- and middle-income students?"

The Committee is dedicated to assisting Congress and the Secretary in addressing pressing issues and improving the Title IV programs during reauthorization. Maintaining the promise of access to postsecondary education for all who seek it--regardless of their financial limitations--will become increasingly important in the next decade and the next century. As costs of postsecondary education escalate, the commitment to and investment in access and choice in postsecondary education must rise. For two centuries this nation has demonstrated a commitment to the development of its greatest resources: an educated citizenry and highly trained workforce. These resources are indispensable as the nation faces the challenges of increased competition and an ever more integrated world economy.

MEETING THE CHALLENGES

Four issues dominated the Advisory Committee's agenda during its first two years: the new formula for need analysis, Congressional Methodology (CM); the structure and costs of multiple data entry processing (MDE); institutional lending in the Stafford student loan program; and the rising level of student loan defaults. The Committee's early agenda originated in statute: Congress specifically mandated the analyses of MDE and institutional lending policies. The more general legislative charge to review all aspects of the financial aid system gave shape to the Committee's work in the areas of need analysis and student loan default.

"Openness and inclusiveness have been hallmarks of the Committee's general approach to deliberations. We have actively reached out to the community to ensure that divergent views are represented to the members."
A. Dallas Martin, Jr.

The Committee's mandated studies and the ongoing review of the delivery system's components are linked by a single, fundamental statutory purpose: to maintain and improve access to postsecondary education for low- and middle-income students. Congressional Methodology was examined with an eye to its impact on low-income students. The MDE study was designed to enhance the financial aid programs through more effective delivery and outreach. The Institutional Lender Study assessed the potential effects of changes in institutional lender criteria, in part, by appraising their impact on the stability of the loan programs and students' access to loans. The Committee's approach to the problem of student loan defaults, too, sought to balance the government's interest in accountability with the financial needs of low-income students seeking access to postsecondary education.

Need Analysis and Congressional Methodology

One of the first issues the Committee addressed was the effect of the new Congressional Methodology (CM) on students applying for financial aid. The CM replaced the earlier Uniform Methodology; unlike its predecessor, it is written into law and must be used to determine all federal financial aid, except Pell Grants. For students and aid administrators, the CM is the critical yardstick of eligibility and must measure need fairly and accurately. Recognizing this, the Committee sent a report to Congress in April 1988 that suggested several modifications to eliminate inconsistencies and confusion concerning eligibility requirements, including:

- Simplify the independent student definition;
- Expand the financial aid administrator's use of professional judgment;
- Eliminate the conflict between the Tax Code and the Higher Education Act; and
- Eliminate inconsistencies between the Higher Education Act and Departmental regulations that could result in double-counting academic year student earnings.

These recommendations were designed to improve the CM while working within the intent of the statute.

The extensive discussions and testimony that shaped the Committee's recommendations on the CM were a prelude to its study of another key component of federal student assistance--multiple data entry processors (MDE).

Multiple Data Entry Processors and the Delivery of Financial Aid

"As families struggle to understand the programs, as well as the perceived inequities, they often become frustrated and mystified. If these programs are to continue to be successful, we must simplify the process, especially for the neediest students."
Raymond M. Burse

One of the first priorities of the Advisory Committee, as a result of its statutory charges, was an examination and assessment of the structure and costs of multiple data entry processing (MDE). Since 1978, the Department of Education has executed contracts with the MDEs to provide application forms that students use to apply for Pell grants and other Title IV aid. Through the MDE structure, students may use the federal form, the Application for Federal Student Aid (AFSA), as well as MDE forms to apply for aid. Because MDEs are allowed to request additional data from students, some postsecondary institutions and states require these forms in order to award institutional and state aid. The MDE structure has become an integral part of the overall delivery system. Congress has recognized the importance of this structure to federal aid delivery by writing the MDE function into the statute. However, growing concern about the uncompetitive nature of MDE contracts and disparities in the fees the Department pays these contractors prompted Congress to charge the Advisory Committee with examining the MDE structure. In particular, the Advisory Committee was to examine the number and kinds of processors, MDEs' impact on students and families, and cost and fee structures.

The Committee recognized that its examination of MDE processors would overlap significantly with its broader task "to monitor, apprise,

and evaluate the effectiveness of student aid delivery and recommend improvements." Certainly this could not be done entirely within the context of the MDE analysis, which was subject to severe time constraints, and the Committee needed to separate those issues that required further study from those that could be addressed through its recommendations on MDEs. Still, viewing the MDE issues within the context of the larger issue of the delivery system would avoid "piecemeal" solutions and ensure a more efficient and effective long-term outcome.

With this in mind, the Advisory Committee examined the legislation and Congressional intent behind the federal student aid programs and delivery mechanisms, to articulate an "ideal" delivery system. This analysis identified four design principles--simplicity, integration, decentralization, and equity--that would shape both the Committee's long-term vision of delivery and the more immediate MDE procurement recommendations for the 1990-91 delivery system. The Committee felt that attention to these principles was absolutely essential to carrying out Congressional intent.

A Subcommittee on multiple data entry processors was formed to identify the key issues and propose alternative solutions. Briefings with MDE representatives, Department of Education officials, and Congressional staff informed the Subcommittee's examination. The Committee also sought the input of the financial aid community, holding an open hearing on MDE issues at its July 1988 meeting in Denver, Colorado. An initial position paper was drafted to serve as the basis for full Committee consideration and discussion. In August 1988 the Committee forwarded its recommendations to the Secretary of Education and sent a full report on its MDE activities to Congress and the Department.

The Committee was careful in its recommendations to work within the laws that Congress had set out, and to recognize the constraints--including deadlines--under which the Department of Education operates. The recommendations were relatively simple:

- Transform existing Pell MDE contracts into Title IV contracts that implement a common form for federal student assistance at no cost to students or families (as required by law);
- Expand the number of MDE contracts (as Congress had directed) to a level that optimizes services to students and institutions;

- Determine the level and range of processing fees paid to contractors through an open, fair, and competitive procurement process that weighs technical factors as strongly as cost factors in proposal evaluation; and
- Provide for determination of appropriate system development costs through normal competitive processes, as in most other Department of Education procurements.

"The federal financial aid delivery system incrementally became more confusing and complex for its target population--low-income college students--as policymakers tried to accommodate increasingly diverse interests."
Joseph L. McCormick

These recommendations would simplify the application process for students, integrate Pell delivery with other Title IV aid, decentralize processing and student interaction to the MDEs (instead of the Department of Education's Central Processor), and would promote the equity goals of the Higher Education Act. The recommendations would offer the Department of Education latitude to utilize the competitive procurement process to determine the number of processors and levels of fees. Finally, they would also serve as a strong foundation for the continued evolution of a healthy federal student aid delivery system.

The Advisory Committee sought broad understanding of its recommendations. After the MDE report was delivered, Committee members and staff briefed Department of Education officials, testified at a hearing before the House Subcommittee on Postsecondary Education, discussed the recommendations with members of the financial aid community, and monitored the progress of the procurements for the 1990-91 delivery system. While not all of the details of the Advisory Committee's proposals were adopted, the Department of Education has moved to implement several of the most significant elements of the recommendations. The procurement process was more competitive, and it increased the number of MDE processors. Federal data elements have been separated from other MDE data in a format common to all applications. Finally, the Department's 1991 budget contains funds for a no-fee federal application form.

Institutional Lender Study

The Stafford Student Loan program allows certain qualified postsecondary education institutions to lend directly to students--in effect, to play the role of a bank or credit union. The Higher Education Act was amended to curb abuses in institutional lending in 1976; since then the number of schools participating as Stafford lenders has dwindled to a mere handful. Congress asked the

Committee to study the question of whether the present restrictions on Stafford lending by postsecondary schools are still relevant or necessary. Arguments in favor of eliminating the restrictions suggested that benefits would include greater access to loans, default reduction, improvements in service to students, and an increase in school revenues that would offset tuition costs.

"The loan programs recently have been subject to powerful forces and are particularly fragile at this juncture. All policy issues must take this fragility into account before additional, potentially destabilizing, changes are introduced."
Stephen C. Biklen

The Committee's study approach was shaped by the lack of existing data bases and models with which to quantitatively assess system-wide implementation of institutional lending. As a result, the Committee fashioned a study design that included a review of existing literature on institutional lending, case studies of state loan systems, and analytic papers. It also sought broad input on data sources with which to assess likely impacts of increased institutional lending. These study tasks identified institutional lending issues and alternatives and served as the basis of discussion for an institutional lending symposium in March 1989. Financial aid officers, bankers, guarantors, loan servicers, government officials, and legislators attended this conference and discussed the benefits and disadvantages of eliminating criteria for institutional lenders. The symposium provided a framework for evaluating a variety of issues, including the benefits and risks of increased lending by institutions, and the possible effects on loan capital and secondary markets. Based on the data that the Committee collected from all its activities, the study concluded that eliminating the criteria could lead to instability in the Stafford Loan program and a potential reduction in students' access to loans. This potential instability could result from a decline in the quality of commercial lenders' student loan portfolios and a shift in the distribution of loans in the secondary market.

The Committee's Institutional Lender Study Report affirmed the relevance of current institutional lending criteria. It also raised a host of other concerns linked with this issue: Are the arrangements among schools, banks, and secondary markets consistent with legislative intent? Will proprietary school and community college students continue to have access to loans? Are lender-of-last-resort requirements putting loan guaranty agencies at risk? How can the confusion and occasional technical default by borrowers resulting from problems in loan servicing be resolved? These issues were beyond the scope of the Institutional Lender Study's focused inquiry, but the Committee's broader function--offering advice and counsel to Congress and the Secretary--suggested that these issues be included in

the final Institutional Lender Study Report as recommendations for future legislative planning.

Stafford Student Loan Defaults

In addition to the studies and analyses required by the legislation, it was clear to members from its earliest meeting that in order to meet its statutory charge, the Committee must be prepared to respond to new issues and emerging problems in financial aid policy. Early in the Advisory Committee's existence the problem of escalating Stafford student loan default volume became a highly visible and hotly debated issue. In response, the House, the Senate, and the Department of Education all began to develop strategies for reducing default.

Cumulative Default Rates in the Stafford Loan Program
(Gross and Net Rates by Year)[1]

Source: U.S. Department of Education

1. Net default rate reflects collections on defaulted loans.

In June 1988 the Advisory Committee Chairman, James R. Craig, presented Advisory Committee testimony before Congress and identified three objectives to guide it in its approach to student loan defaults:

- Preserve access by ensuring the availability of loans for needy students;
- Reduce default costs and increase collections; and
- Control program and administrative costs for all the parties in the delivery system.

The problem of student loan defaults presents difficult policy choices. Defaults are a function not only of administrative factors, but of student characteristics, as well. Unfortunately, those students that need the loan programs most--low-income students--are many times those who are most likely to default. The Committee acknowledged that policies that reduce defaults and their costs as well as improve an institution's fiscal management, may also negatively affect access to loans for students. Default reduction strategies must be balanced with the need to provide low-cost loans for the neediest students.

The Advisory Committee responded to the Secretary's default reduction initiative, offering several recommendations, and testified again before Congress in 1989. It stressed that the problem would require all parties in the delivery system to work together, each performing appropriate tasks, and called for clarification of the role of each member in the student loan delivery process--students, schools and colleges, lenders, guaranty agencies, national associations, and the Department of Education--in order to develop a comprehensive strategy.

The Committee suggested refinements to the default calculations upon which administrative decisions are based and highlighted the need for a reliable data base on institutional and lender performance. It urged the Department of Education to target its resources on those institutions most in need of help, rather than imposing blanket procedural requirements on all institutions--even those already performing well. Most important for the long term, the Committee recommended that the Department of Education initiate research to evaluate default reduction efforts and establish a data base that will help institutions find and use successful default reduction strategies. The Department of Education's final regulations reflected the proposals of many parties, including the Advisory Committee, and demonstrated a particular sensitivity to issues of access.

"Although default reduction strategies for lenders and schools are crucial in managing student loan programs, the single most critical mechanism for preventing defaults is to reduce the dependence on loans: by adequately funding grant programs and making them more accessible."
Michael S. Katz

SETTING PRIORITIES FOR THE FUTURE

In its first two years, the Advisory Committee has been faced with the challenges of responding to key Congressional priorities. Due in large part to the success of these efforts, Congress has asked the Committee to help in the reauthorization of the Higher Education Act in 1991. Members of Congress wrote and asked the Committee to identify and discuss issues that should be considered by Congress during the next reauthorization.

Reauthorization Agenda

Reauthorization of Title IV of the Higher Education Act will be the Committee's principal focus in 1990. Its approach recognizes the most important issue at hand: access to higher education for low-income, disadvantaged populations. There is a strong sense in the Committee that, while the Title IV programs are very effective in providing access to the traditional, college-bound, graduating high school senior, much more needs to be done to achieve and maintain access for the disadvantaged and minority populations. In support of Congress, the Committee will identify important policy issues and then organize, encourage, and direct analytical assessment of these topics by experts in the financial aid community. The Committee's efforts in 1990 will concentrate on three issue areas derived from its Congressional mandate: need analysis and delivery system; information resources, services, and programs; and studies, surveys, and analyses.

"This reauthorization will provide an opportunity to reinvigorate the programs, and Congress has indicated its willingness to consider bold initiatives."
Edward M. Elmendorf

The Committee will build on its earlier studies and continue to pursue the course it has set--identifying issues, developing alternative solutions, and assessing impacts through an open dialogue with the financial aid community. The goal of these efforts will be to provide Congress with a legislative planning document for the reauthorization of the Higher Education Act in 1991.

Need Analysis and the Delivery System

The Committee's work in the area of need analysis and student aid delivery was refocused after delivering its recommendations on MDE. The reauthorization initiative invites the next step in the Committee's work: improving access through simplification and streamlining of the financial aid system. Among the many questions the Committee is

exploring, probably the most important is how best to dispel the confusion many students and families feel in confronting the intricacies of the Title IV programs. Can forms and processes be made easier to understand? Can certain low-income families be exempted from need analysis? Can the process be simplified by streamlining reapplication procedures? Can the need analysis and program eligibility formulas be integrated?

"The Committee's efforts in this area attempt to maintain equity while eliminating a key perceived barrier: the complexity confronted by every family and student."
James L. Flippin

The Committee pursued these and other issues through exploratory staff work and a symposium focusing on three areas: need analysis models, forms and processes, and state and institutional data needs. Held on December 4, 1989, the symposium brought together well over 100 experts, government officials, Congressional staff, and financial aid practitioners to examine the feasibility of numerous policy options designed to simplify and streamline the federal student aid system.

The Committee asked panelists to provide data and to address several issues related to simplifying and integrating need analysis models. These issues included examining the feasibility of:

- Exempting very low-income families who qualify for the simple needs test from need analysis, since these formulas predictably produce no family contribution for such families;
- Moderately increasing the income cap on the current simple needs test from $15,000 to perhaps $20,000 or $25,000; and
- Integrating the Pell Grant and Congressional Methodology.

In the area of forms and processes, the Committee used the symposium to explore means for utilizing the delivery system to streamline initial application and reapplication processes. Panelists discussed the feasibility of:

- Exempting certain populations from need analysis based on their participation in other federal human resource programs, such as AFDC, Food Stamps, or Medicaid; and
- Streamlining the reapplication process for various types of students.

The symposium also focused on the implications of simplification and integration at the federal level on states and institutions. Panelists presented data regarding:

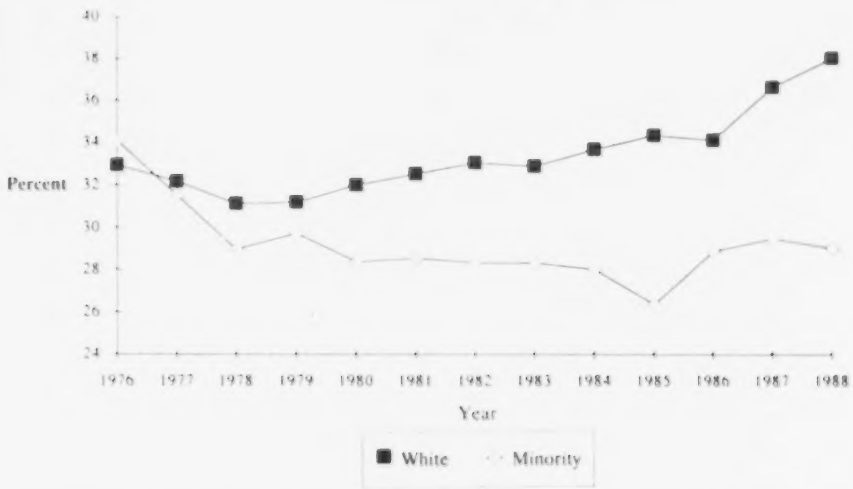
- The state responses to current efforts to simplify need analysis and delivery through full implementation of the simple needs test, and likely responses to future efforts; and
- The institutional responses to implementation of current or alternative simple needs tests, and the implication of these tests for packaging of federal aid, awarding of institutional funds, and use of professional judgment.

Staff analyses and community involvement will continue into the spring of 1990 as the Committee continues to explore the feasibility of simplification alternatives.

Information Resources, Services, and Programs

A key element in opening the door to higher education, and keeping it open, will be outreach. Disadvantaged students, the majority of whom do not continue their education, must be informed that money is available for postsecondary education. How effective the Title IV program's information efforts are in delivering this message will depend on a change in the definition of access.

Higher Education Participation Rates of
High School Graduates by Year
(Minorities and Whites Ages 18 - 24) [1]



Source: U.S. Department of Commerce, Bureau of the Census, "Current Population Reports," Series P-20, various years

1. Minority Includes African-Americans and Hispanics

The traditional view of access as a single event linked to high school graduation is now too narrow. Instead, access must be viewed as a long-term process that begins as early as junior high school and continues through postsecondary school. Such a long-term definition of access allows the Title IV programs to take a more active role in providing higher education opportunities for the disadvantaged.

In the area of information resources, services, and programs, the Committee is primarily interested in assessing the structure, distribution, *and* timing of information related to the financial aid programs. Of special interest is the adequacy of current efforts to make disadvantaged students aware, early in high school, of their considerable drawing power on federal, state, and institutional programs. The Committee's work in this area began in August 1989 with a hearing that focused in part on outreach and information programs.

The next step will be a review of the most promising federal, state, and institutional early interventions. The Committee feels that the aid programs might be much more effective in maintaining access if they contribute significantly to high school educational achievement. The transition from two-year to four-year schools and how information about the aid programs affects this transition is also viewed as very important. Lastly, the Committee is interested in reviewing the amount and quality of information low-income disadvantaged students have about returns to education, costs, and the like. A symposium is planned for late spring 1990. Similar in format and function to other Advisory Committee symposia, it will serve as a forum for discussion of promising alternatives and the appropriate federal role in providing information and services to ensure access for low- and middle-income students.

Studies, Surveys, and Analyses

As important in meeting these objectives, especially in the coming decade as the mix of students changes, is an accurate data base that includes information on access and the educational outcomes of low-income postsecondary students. The Committee will recommend analytical studies and surveys designed to improve this data base and the student aid programs.

In the area of studies, surveys, and analyses, the Committee's primary responsibility is to recommend--*not* conduct--analytical efforts aimed at improving student aid programs, policies, and practices. Of special interest is the adequacy of existing analyses and data related to access, retention, and education outcomes of low-income disadvantaged students. The fundamental question in this area is "what studies or analyses need to be done to solve the most serious problems affecting access and choice for low- and middle-income students?" A symposium is tentatively scheduled for summer 1990.

"The challenges facing the programs today demand appropriate data and sound analyses as a basis for the policymaking process."
John Raisian

Reporting to Congress

The success of the Committee's reauthorization activities will depend on the working relationships it has developed during its first two years. Putting the experience and expertise of school and college administrators, government officials, lenders, students, and the other participants in the Title IV programs to work is key to developing a more effective student financial aid strategy. The Advisory Committee, through its symposia, will provide a forum for discussion of possible innovations in Title IV. Only through such a concerted effort can this country meet the educational challenges of the next decade and ensure the ambitious goals of the Higher Education Act. Each of these symposia will serve to inform the Committee's deliberations and, later, its recommendations. The Committee will deliver a report to Congress in 1990 that draws together its work in all three issue areas and can serve as a planning document for reauthorization legislation.

LIST OF MEMBERS AND STAFF

Advisory Committee On Student Financial Assistance

Current Members By Class Of Appointment

Class of 1990
(Term expires September 30, 1990)

Ms. Lynn Burns
Director of Financial Aid
Roger Williams College
Bristol, Rhode Island
(U.S. Senate appointee)

Mr. James R. Craig
Director of Financial Aid Services
Montana State University
Bozeman, Montana
(House of Representatives appointee)

Mr. Linus Wright
Paul R. Ray and Co., Inc.
Dallas, Texas
(Secretary of Education appointee)

Class of 1991
(Term expires September 30, 1991)

Ms. Ashley L. Barron
Student
Drew University
Madison, New Jersey
(Secretary of Education appointee)

Dr. Edward M. Elmendorf
Vice President for Governmental Relations
American Association of State Colleges and Universities
Washington, D.C.
(Secretary of Education appointee)

Dr. James L. Flippin
Assistant Commissioner for Student Financial Aid and Director
Mississippi Guaranteed Student Loan Agency
Jackson, Mississippi
(U.S. Senate appointee)

Mr. Joseph L. McCormick
Executive Director
Texas Guaranteed Student Loan Corporation
Austin, Texas
(House of Representatives appointee)

Class of 1992
(Term expires September 30, 1992)

Mr. Stephen C. Biklen
Vice President
Citibank
Pittsford, New York
(House of Representatives appointee, reappointed 10/01/89)

Mr. Michael S. Katz
University Director of Student Financial Aid
University of Medicine and Dentistry of New Jersey
Newark, New Jersey
(Secretary of Education appointee)

Dr. Stanley Z. Koplik
Executive Director
Kansas Board of Regents
Topeka, Kansas
(U.S. Senate appointee)

Dr. David Malek
Associate Dean of Natural Sciences
College of DuPage
Glen Ellyn, Illinois
(Secretary of Education appointee)

Designated Federal Official (ex officio)

Dr. Roberta B. Dunn
Deputy Assistant Secretary for Student Financial Assistance
U. S. Department of Education
Washington, D.C.

Former Members *

Mr. David L. Brown
10/1/87 - 12/17/88
Student
Greensboro, North Carolina
(Secretary of Education appointee, reappointed 10/1/88)

Mr. Raymond M. Burse
12/3/87 - 09/30/89
Wyatt, Tarrant & Combs
Louisville, Kentucky
(U.S. Senate appointee)

Mr. Jeffrey A. Flatten
10/1/87 - 05/8/88
Senior Vice President
Florida Federal Savings and Loan
St. Petersburg, Florida
(House of Representatives appointee)

Dr. Robert V. Iosue
12/3/87 - 09/30/89
President
York College of Pennsylvania
York, Pennsylvania
(Secretary of Education appointee)

Dr. C. Ronald Kimberling
04/10/88 - 09/30/88
Executive Director
Ronald Reagan Presidential Foundation
Los Angeles, California
(Secretary of Education appointee)

Mr. James M. Lombard
10/01/87 - 04/04/88
Florida House of Representatives
Tallahassee, Florida
(Secretary of Education appointee)

Dr. A. Dallas Martin, Jr.
10/01/87 - 04/10/90
President
National Association of
Student Financial Aid Administrators
Washington, D.C.
(U.S. Senate appointee)

Dr. John Raisian
12/03/87 - 09/30/89
Deputy Director
The Hoover Institution
Stanford University
Stanford, California
(Secretary of Education appointee)

Ms. Deborah Steelman, Esq.
10/01/87 - 01/16/89
Epstein, Becker, Borsody and Green
Washington, D.C.
(Secretary of Education appointee)

*Titles were current at the time of service on the Advisory Committee.

Advisory Committee Staff

Mr. Brian K. Fitzgerald
Staff Director

Dr. William J. Goggin
Staff Consultant

Ms. Robin Sampson
Research Associate

Mrs. Hope M. Gray
Staff Assistant

Ms. Lisa D. Hastye
Secretary

AUTHORIZING LEGISLATION

SECTION 491 OF THE HIGHER EDUCATION ACT OF 1965

Advisory Committee on Student Financial Assistance

(a) ESTABLISHMENT AND PURPOSE -- (1) There is established in the Department an independent Advisory Committee on Student Financial Assistance (hereafter in this section referred to as the "Advisory Committee") which shall provide advice and counsel to the Congress and to the Secretary on student financial aid matters.

(2) The purpose of the Advisory Committee is--

(A) to provide extensive knowledge and understanding of the Federal, State, and institutional programs of postsecondary student assistance;

(B) to provide technical expertise with regard to systems of needs analysis and application forms; and

(C) to make recommendations that will result in the maintenance of access to postsecondary education for low- and middle-income students.

(b) INDEPENDENCE OF ADVISORY COMMITTEE -- In the exercise of its functions, powers, and duties, the Advisory Committee shall be independent of the Secretary and the other offices and officers of the Department. The recommendations of the Committee shall not be subject to review or approval by any officer in the executive branch, but may be submitted to the Secretary for comment prior to submission to the Congress in accordance with subsection (f). The Secretary's authority to terminate advisory committees of the Department pursuant to section 448(b) of the General Education Provisions Act ceased to be effective on June 23, 1983.

(c) MEMBERSHIP -- (1) The Advisory Committee shall consist of 11 members of which--

(A) 3 members shall be appointed by the President pro tempore of the Senate upon the recommendation of the Majority Leader and the Minority Leader,

(B) 3 members shall be appointed by the Speaker of the House of Representatives upon the recommendation of the Majority Leader and the Minority Leader, and

(C) 5 members shall be appointed by the Secretary including, but not limited to representatives of States, institutions of higher education, secondary schools, credit institutions, students, and parents.

(2) Not less than 7 members of the Advisory Committee shall be individuals who have been appointed on the basis of technical qualifications, professional standing and demonstrated knowledge in the fields of higher education and student aid administration, need analysis, financing postsecondary education, student aid delivery, and the operations and financing of student loan guarantee agencies.

(d) FUNCTIONS OF THE COMMITTEE -- The Advisory Committee shall--

(1) develop, review, and comment annually upon the system of needs analysis established under sections 411A through 411E and part F of this title;

(2) monitor, apprise, and evaluate the effectiveness of student aid delivery and recommend improvements;

(3) recommend data collection needs and student information requirements which would improve access and choice for eligible students under this title and assist the Department of Education in improving the delivery of student aid and in assessing the impact of legislative and administrative policy proposals;

(4) review and comment upon, prior to promulgation, all regulations affecting programs under this title, including proposed regulations;

(5) recommend to the Congress and to the Secretary such studies, surveys, and analyses of student financial assistance programs, policies, and practices, including the special needs of low-income, disadvantaged, and nontraditional students, and the means by which the needs may be met, but nothing in this section shall authorize the committee to perform such studies, surveys, or analyses;

(6) review and comment upon standards by which financial need is measured in determining eligibility for Federal student assistance programs; and

(7) appraise the adequacies and deficiencies of current student financial aid information resources and services and evaluate the effectiveness of current student aid information programs.

(e) OPERATIONS OF THE COMMITTEE -- (1) Each member of the Advisory Committee shall be appointed for a term of 3 years, except that, of the members first appointed--

(A) 4 shall be appointed for a term of 1 year;

(B) 4 shall be appointed for a term of 2 years; and

(C) 3 shall be appointed for a term of 3 years,

as designated at the time of appointment by the Secretary.

(2) Any member appointed to fill a vacancy occurring prior to the expiration of the term of a predecessor shall be appointed only for the remainder of such term. A member of the Advisory Committee shall, upon request, continue to serve after expiration of a term until a successor has been appointed. A member of the Advisory Committee may be reappointed to successive terms on the Advisory Committee.

(3) The Advisory Committee shall elect a Chairman and a Vice Chairman from among its members.

(4) Six members of the Advisory Committee shall constitute a quorum.

(5) The Advisory Committee shall meet at the call of the Chairman or a majority of its members.

(f) SUBMISSION TO DEPARTMENT FOR COMMENT -- The Advisory Committee may submit its proposed recommendations to the Department of Education for comment for a period not to exceed 30 days in each instance.

(g) COMPENSATION AND EXPENSES -- (1) Members of the Advisory Committee who are officers or full-time employees of the United States shall serve without compensation in addition to that received for their services as officers or employees of the United

States; but they may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons in the Government service employed intermittently.

(2) Members of the Advisory Committee who are not officers or full-time employees of the United States may each receive reimbursement for travel expenses incident to attending Advisory Committee meetings, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons in the Government service employed intermittently.

(h) PERSONNEL AND RESOURCES -- (1) The Advisory Committee may appoint such personnel as may be necessary by the Chairman without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, and may be paid without regard to the provisions of chapter 51 and subtitle III of chapter 53 of such title relating to classification and General Schedule pay rates, but no individual so appointed shall be paid in excess of the rate authorized for GS-18 of the General Schedule.

(2) In carrying out its duties under the Act, the Advisory Committee shall consult with other Federal agencies, representatives of State and local governments, and private organizations to the extent feasible.

(3)(A) The Advisory Committee is authorized to secure directly from any executive department, bureau, agency, board, commission, office, independent establishment, or instrumentality information, suggestions, estimates, and statistics for the purposes of this section and each such department, bureau, agency, board, commission, office, independent establishment, or instrumentality is authorized and directed, to the extent permitted by law, to furnish such information, suggestions, estimates, and statistics directly to the Advisory Committee, upon request made by the Chairman.

(B) The Advisory Committee may enter into contracts for the acquisition of information, suggestions, estimates, and statistics for the purpose of this section.

(4) The Advisory Committee is authorized to obtain the services of experts and consultants in accordance with section 3109 of title 5, United States Code.

(5) The head of each Federal agency shall, to the extent not prohibited by law, cooperate with the Advisory Committee in carrying out this section.

(6) The Advisory Committee is authorized to utilize, with their consent, the services, personnel, information, and facilities of other Federal, State, local, and private agencies with or without reimbursement.

(i) AVAILABILITY OF FUNDS -- In each fiscal year not less than $500,000, shall be available from the amount appropriated for each such fiscal year from salaries and expenses of the Department for the costs of carrying out the provisions of this section.

(j) SPECIAL INSTITUTIONAL LENDER STUDY --

(1) The Advisory Committee shall conduct a thorough study of institutional lender policy. In carrying out the study, the Advisory Committee shall examine, but not be limited to--

(A) The relevance and current applicability of the institutional lender criteria established in section 435(d);

(B) The appropriateness of using default rates for loans made under part E or other institutional criteria to determine institutional participation;

(C) Whether or not a portion or all of any special allowance or other payments paid to institutional lenders should benefit need-based scholarship or grant programs;

(D) whether or not institutional lenders should be required to hold loans made to eligible borrowers through graduation or termination of matriculation;

(E) examine the extent and degree to which student access to loan capital would be adversely affected by the restrictions contained in section 435(d)(2); and

(F) assess the potential impact on State secondary markets and lender portfolios if student borrowers at higher cost colleges and universities, who come from higher income families, concentrate their lending with a few large lenders and secondary markets.

(2) The Advisory Committee shall consult with the Committee on Education and Labor of the House of Representatives and the Committee on Labor and Human Resources of the Senate in carrying out the study required by this subsection.

(3) The Advisory Committee shall, not later than 2 years after the date of enactment of the Higher Education Technical Amendments Act of 1987, prepare and submit to the Committee on Education and Labor of the House of Representatives and the Committee on Labor and Human Resources of the Senate a report of the study required by this section.